Allis, C. F.

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THE CURRENCY PROBLEM.

A PAPER READ BY

C. F. ALLIS,

VICE-PRESIDENT OF THE

SECOND NATIONAL BANK OF ERIE, PENN'A,

AT A MEETING OF GROUP SEVEN,

OF THE

Pennsylvania Bankers' Association

HELD AT

CAMBRIDGE SPRINGS, PENN'A,

SEPTEMBER 16, 1897.

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THE CURRENCY PROBLEM.

Mr. President and Gentlemen of the Convention:

I have chosen for my subject a problem that is literally as "old as the hills." How can a paper money be made to take the place of heavy inconvenient coin and serve its day and generation acceptably?

When Abraham, some two thousand years before Christ, purchased the cave and field of Machpelah for four hundred sheckels of silver, it was a plain business transaction in hard money. The commerce of the world was at that time so small and the transactions so few that a more convenient medium of exchange was not demanded.

The Bank of Venice, established in 1171, did an acceptable banking business for some six hundred years, and was the first to invent a substitute for coin. Money deposited in the Bank of Venice was not to be drawn out, but the credit could be transferred, and these credits were so acceptable that they commanded a premium over gold. No record of dissatisfaction with this practice has ever been found, and later, in 1609, the Bank of Amsterdam pursued the same policy with success.

Paper money issued by the bank itself was thought to be an improvement upon these credits and soon became an important factor in the commercial world, but paper money has always an element of credit. It walks by faith, not by sight. It is a credit, not a quittance, and although preferred over coin, must, unless secured, have an unstable value.

Every nation has for centuries demanded of its ablest financiers and law makers a system of banking and currency which should prevent, if possible, any loss to bill holders or to depositors. The indifferent success which has attended their efforts is well known to every reader of history. There has been no loss whatever

TO THE BILL HOLDER

under our present system and the percentage of loss to the depositor in 35 years has been very small, but the volume of currency is not elastic and the system has not made its way into the South and West as a national system should, besides

OUR GOVERNMENT IS IN THE BANKING BUSINESS,

must hold one hundred million dollars as a gold reserve and keep afloat nearly five hundred millions of its own paper. One of the most serious problems that confronts us to-day is the irredeemable greenback, this DEMAND LOAN thirty odd years PAST DUE.

These legal tender notes, although bearing no interest, have cost directly and indirectly about four hundred million dollars.

(1) Interest on one hundred million dollars gold reserve for 30 years and more at, say 5 per cent, one hundred and fifty million dollars.

2. New bonds issued in 1894-5-6, to maintain the reserve two hundred and sixty-two million dollars.

With your kind permission I will digress a moment to say a word of the evils of an irredeemable paper currency and of the original Greenbacker John Law, of Edinburgh, using the term greenbacker, only in its best sense. Mr. Law conceived the idea of credit in money and held that gold or land or anything worth 20 pounds was a basis for that amount of paper. While Law was a notorious gambler and debauchee, he was a man of excellent education, a bright mind and unquestionable natural ability. Having killed an antagonist in a duel he fled to France, thence to Holland, where in the great Bank of Amsterdam he made a special study of banking. In passing (and before we see the utter failure of this man's ideas) we must give him due credit for honesty of purpose and sincerity in his convictions. We find no evidence that he desired other than to promote the general welfare. He made no money for himself died poor, but never could be convinced that his theories were not all that he claimed for them.

In 1700 he returned to Scotland and published what was probably the first document advocating the issue of paper money. The bank which he would establish should hold all the sources of revenue of the state, and treating them as capital issue notes. But our stubborn conservative Scotch brothers were not pressed financially in the first and most important place, and in the second, did not propose to try any experiment.

Taking the scheme to Paris he succeeded no better, but after the death of Louis XIV. and accession of the duke of Orleans, Law, now wealthy by gambling, secured the patronage of the regent, and in 1876 established a bank under royal authority.

It is important to notice here that the financial affairs of the French Kingdom were at this time very much embarrassed, a condition which you will observe always accompanies the issue of a paper money by a government. Private credit was also affected and as the Royal Bank would issue its stock for government bills then 80 per cent below par, its shares were soon taken and the scheme was apparently a success from the start. He conceived the idea of colonizing and drawing profit from the French possessions in North America, a project calling for more money, which cost nothing but the printing.

The bank extended its capital 624,000 shares, 550 francs each (sixty-two and one-half million dollars) and engaged to lend the king 1,600,000,000 francs, ($300,000,000) at 3 per cent. So popular was the new money and so contagious was this speculative fever that the shares of the company advanced to 35 or 40 times their original value; the increase in the value of real estate and in fact all commodities, was enormous.

In May, 1720, the issue of circulating notes had reached 3,071,000,000 francs (about six hundred million dollars), 835,000,000 francs (one hundred and sixty-seven million dollars) more than had been legally authorized. Meantime Law had been made Comptroller General. But this bubble burst as all bubbles must and history records that the collapse was disastrous. Before the end of 1720 the shares

of the company, originally 500 francs ($100) and worth in paper at one time four thousand dollars, could be bought for a Louis d'or ($4.84), and the paper money became worthless. Law became a fugitive, although he had committed no crime, and died in great poverty at Venice. While Law was rich, well educated, a banker by profession, he failed to see that paper money was only a medium of exchange and that any issue beyond an amount conveniently redeemed brings disaster.

The century was not completed when France again tested the merits of paper money on the same general basis. The necessity was the great revolution, and the basis or security was state property, lands which had been confiscated to the state. The National Assembly in 1790 issued this money under the name of Assignats (Assenyah.) The first emission, four million francs, bore interest and the others did not, but all were legal tender. In September, eight hundred million francs were issued. The depreciation of this currency so alarmed the government that a maximum price was established for everything. Heavy penalties and at last death were decreed against any who should refuse to take them at par, but as history has shown time and again legislation never so stultifies itself as when attempting to force into circulation a depreciated currency. In 1793 the value had fallen to one-third. In February, 1796, the assignats legally issued had amounted to forty-five thousand five hundred million francs and had fallen to two-fifths of one per cent. An issue of mandats which entitled the bearer to take immediate possession of the land prolonged the struggle, but in about six years this paper money had ceased to circulate and coin reappeared. The distress and suffering caused by this fluctuating uncertain measure of value is said, on good authority, to have been greater a hundred fold than the prison and the guillotine.

Prof. Perry, of Williams College, maintains that "There never was a government yet of all which have attempted the issue of inconvertible paper which has had prudence and firmness enough to resist for any great length of time the temptation to issue such paper in excess.

Robert Ingersoll wittily remarks in discussing the Indian problem that our government has broken every treaty it has made with the Indians unless it has made one to-day. The same may be said of our popular legal tender notes. The pledge to redeem at the earliest practical moment has been disregarded for some 35 years and if we redeem these notes at par (as we unquestionably will) and retire them forever, it will be the first case of the kind in history where the amount has been so large and the depreciation so great.

The assignats were depreciating in the very months in which Robespierre and the committee of public safety were weilding the power of life and death in France with terrific energy. They did their utmost to stop the sinking of the revolutionary paper, but value knows its own laws and follows them in spite of decrees and penalties.

In 1796 Austria tried the same experiment with the same result. Beginning with forty-seven millions they had issued up to 1806, some four hundred millions and in 1810 the price fell to five hundred for one hundred gold and when nearly worthless were funded into something with a new name.

I might multiply the experience in foreign countries, but it is unnecessary. Our own country began before we threw off the allegiance to Great Britain, and Connecticut, South Carolina and Rhode Island added their experience to those who had gone before.

My illustration would not be complete without reference to the Continental money which began with three hundred thousand dollars and ended with Three hundred and Fifty millions and the value dropped so low that a prominent barber shop was papered with it.

OUR BANKING SYSTEM.

We have to-day in many respects a satisfactory banking system, the suggestions, however, which I beg to offer upon this occasion would in my judgment if enacted into law greatly improve it. The evertroublesome greenback would be withdrawn from circulation and destroyed and one hundred millions of gold would be released for business needs; the note holder and depositor would be equally protected and every town could have its National bank. Whether the long-desired end would be attained and we would have an elastic currency and a popular growing system is for you to judge. My theory is, however, that if we will make our banks as safe as our government, the little bank in New Mexico or Montana as good as the great clearing house banks of our large cities, we shall hear no more of state institutions revived, with their "wild cat" currency nor of the proposed Postal savings banks in order that the people's money may be secured from loss.

(1.) I would have Congress authorize the issue of a series of two and one-half per cent bonds (interest one and one-fourth per cent semi-annually) payable in coin 50 years after date and redeemable in 20 years. These bonds to be registered and to be issued in denominations of five and ten thousand dollars to any amount that should be required by this amendment.

(2.) I would offer these bonds at par to be paid for in United States legal tender, or treasury notes, or gold, at the discretion of the secretary of the treasury and to be used only as a basis for a national currency. While it is not probable that the gold reserve would be impaired under the practical working of this amendment I have thought best to give the secretary of the treasury the right to demand gold in payment of these bonds should he require it. I would then amend the national currency act so as to provide that whenever any national bank now established, or hereinafter to be established, should purchase these bonds and authorize their delivery to the comptroller of the currency as security for circulating notes, the comptroller should issue to them national currency to the amount of the bonds deposited, not exceeding the paid in capital of the bank and whenever the comptroller should issue new national currency under the provisions of this amendment an equal amount of legal tender or United States treasury notes should be destroyed and should not be reissued.

The banks taking these bonds should be required to pay annually a tax of one-half of one per cent (one-fourth per cent semi-annually) upon the amount of their outstanding circulation to the United States treasury and should be exempt from all other government taxation. This tax to be used:

(a.) To pay all expenses of the department including printing, engraving, redemption, etc.

(b.) To create a fund from which after the receiver of a suspended bank has exhausted the assets of the bank, and the stockholder's liability, the depositors should be paid in full without interest. Whenever this fund should amount to say, two and one-half million dollars, the tax collected in excess of that sum should be covered into the treasury for current expenses.

(3.) I would provide further that in towns of five thousand population or less, national banks may be established with a subscribed capital of $50,000, one-half of which must be paid in before they are authorized to do business, the remaining one-half to be paid in five equal annual assessments.

(4.) Whenever the outstanding legal tender or treasury notes or 90 per cent of them have been redeemed and destroyed under the operation of this amendment, the money received for bonds sold may be used for the purchase or redemption of outstanding bonds or obligations of the government bearing a higher rate of interest.

(5.) If, at any time, the government desires to pay the bonds issued under this amendment, the comptroller should be authorized to issue to any bank whose bonds are called new currency in proper form not exceeding 75 per cent of the capital paid in and these notes should be first lien upon the assets of the bank and subject to the same taxation as when secured by bonds.

(6.) I would make this new national currency a full legal tender for all debts public and private except those due to the government and would make them redeemable in coin at the bank of issue, and at the department in Washington.

Inasmuch as the volume of deposits under ABSOLUTE SECURITY would be largely increased, I would have a limit placed by law upon the rate of interest to be paid for deposits and a penalty for any violation of the law. For the same reason I would provide that national banks should be allowed to loan one-fourth of their deposits on well secured bonds, mortgages and judgments or to purchase certain lines of municipal or other high class bonds:

COINAGE OF GOLD.

(8.) The outstanding gold and silver certificates I would not disturb, but I would leave our mints open to the free and unlimited coinage of gold.

The panic of 1893 taught many of us a lesson entirely new. Beginning with May we saw our cash on hand gradually decreasing. Pay-rolls went out regularly, but they did not come back. and when we ordered currency from New York we were told that our balance would be paid only through the clearing house. Even the much-abused silver dollar, the "stove-lid," could not be had at par, and many of us paid a small premium for real money during the summer. This possible condition of affairs demands suitable legislation and I would suggest an

EMERGENCY CIRCULATION.

I would provide that whenever, in the judgment of the President, the Secretary of the Treasury and the Comptroller of the Currency the financial condition of the country demanded a temporary increase in the volume of the currency, the Comptroller should be directed to issue to any solvent bank, with unimpaired capital, whatever amount they should apply for, but not to exceed 25 per cent of their paid in capital. This emergency circula-

ion should differ in color from the ordi-iary national currency, should be payable ne year after the date of issue, and at he maturity of such notes the bank hould be required to deposit in current unds with the United States treasurer, he amount issued to them with five per ent interest added. These notes should e first lien upon the assets of the bank, nless the government bonds should have een paid off when the lien should come fter the regular circulation. If this mergency circulation was authorized and eady to issue, it is more than probable hat we should never again experience money panic.

It would be presumptuous in me to claim hat the national banking act with the mendments which I have outlined above vould be a perfect banking system, but t would most certainly meet with the pproval of a very large percentage of usiness men.

Under this system the bill holder would e as well secured as at the present ime and the depositor in a national ank would soon come to realize that e could not lose his money. National anks would be organized in many places hroughout our country which to-day en-oy no banking facilities and money now oarded would be available for business eeds. The organization of new banks vould prove of the greatest benefit for I elieve that no institution contributes so nuch towards the substantial prosperity f any community as a thoroughly solv-nt and well-managed bank, a place vhere the savings of the poor or the ac-umlations of the rich are safe beyond a ossible loss. The reckless cry of 'favoritism" made so freely against the ational banks loses its force when they re compelled to admit that banking is s free as any other business and when-ver our government establishes a banking system where the bill holder and the depositor are equally secure the tide will turn and national banks will be the most popular institutions of the land.

Many of us remember the advertisements of Jay Cooke that "A National Debt is a National Blessing." Now, whether we agree with Mr. Cooke or not it is certain that as long as there are any bonds outstanding they may as well be used as security for circulating notes and under this amendment our entire debt would, within ten years, be funded into new bonds at a shade over two per cent interest for as soon as the guarantee fund reaches a safe amount, say two and one-half million dollars, the tax of one-half of one per cent less the expenses of the department would be covered into the treasury. We could then boast of a lower rate of interest on our government debt than any other country on the face of the globe.

I am not unaware that the suggestions which I have outlined will be opposed by many bankers of successful experience. They will urge that strong banks are asked to insure the weaker ones; that the national banking system would absorb all other banks; that reckless banking would be encouraged, etc., etc., but the system is still profitable after the insurance is paid, and if its merit attracts private institutions, the public is the gainer, the reckless banker must lose his stock twice and his reputation besides. My opinion is that the benefits derived from the amended system would be an unanswerable argument in its favor and if our government has for 35 years secured the note holder why can she not now protect the depositor?

Our currency laws are no doubt subject to criticism, but I believe that we have a banking system which can readily be made a model for the world.

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